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JEANNE M. ZOLEZZI

VIA FACSIMILE

August 11, 1998

Mr. Lester A. Snow  
CALFED Bay-Delta Program  
1416 Ninth Street, Suite 1155  
Sacramento, California 95814

Re: Stockton East Water District/Calfed Bay-Delta Program  
Our File No. 1026-015

Dear Lester:

Stockton East Water District has the following comments on the DRAFT Preferred Alternative Update dated July 8, 1998. The district is concerned with some of the predefined conditions for staged implementation and with the financing components discussed in this document.

Staged Implementation

The concept of staged implementation is a good one. It will allow parties to gain confidence in the program before larger or more controversial components of the project are implemented. However, the triggers for staged implementation must be acceptable and reasonable.

Page 7 of the Draft includes potential conditions/linkages for future decision regarding groundwater/conjunctive use programs. These potential conditions include "demonstrated willingness to finance by beneficiaries." This phrase must be reworded to make clear that the method of CALFED financing has not yet been determined, and that local beneficiaries may not be financing 100% of groundwater/conjunctive use programs for various reasons, including area of origin obligations or other environmental benefits realized from the programs. For this reason, we would suggest that the phrase "Demonstrated willingness to finance by beneficiaries" be clarified as "Demonstrated willingness by beneficiaries to participate in financing".

Mr. Lester A. Snow  
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Finance Package

Page A-1 includes a description of the Finance Package, and the Agreement on the financial principles. These principles include:

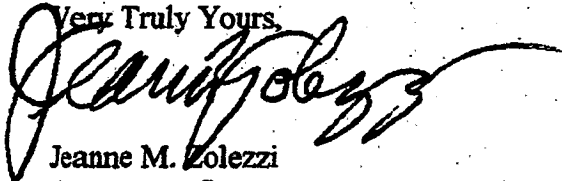
- Benefits based approach (beneficiaries pay)
- Public/User cost split
- Crediting for other parallel efforts or contributions to Category III
- Cost allocation methodology or strategy

Again, it is our understanding that CALFED has not yet worked on its financing package, and that the concept of strict benefits based approach has not yet been approved.

As you know from our past comments, under certain circumstances, the benefits based approach is not appropriate, and we do not believe it should be assumed this early in the negotiations. Again, we would suggest that the first financial principles be reworded from "Benefits-based approach (beneficiaries pay)" to "Benefits-based approach where appropriate (beneficiaries pay unless countervailing principles apply)".

We would be happy to discuss these issues further with you. In addition, please insure that I receive copies of all meeting notices of the CALFED committee working on the Financing Package.

Very Truly Yours,



Jeanne M. Zolezzi  
Attorney-at-Law

JMZ:des

cc: Mr. Edward M. Steffani, Stockton East Water District